SBA-CREATED INITIATIVES: NECESSARY OR REDUNDANT SPENDING?

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

HEARING HELD
APRIL 30, 2014

Small Business Committee Document Number 113–066
Available via the GPO Website: www.fdsys.gov

U.S. GOVERNMENT PRINTING OFFICE

87–751 WASHINGTON : 2014

For sale by the Superintendent of Documents, U.S. Government Printing Office
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SBA-CREATED INITIATIVES: NECESSARY OR REDUNDANT SPENDING?

WEDNESDAY, APRIL 30, 2014

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 1:00 p.m., in Room 2360, Rayburn House Office Building. Hon. Sam Graves [chairman of the Committee] presiding.

Present: Representatives Graves, Chabot, Luetkemeyer, Tipton, Huelskamp, Collins, Velázquez, Schrader, Chu, Meng, and Schneider.

Chairman GRAVES. Good afternoon. We will call the hearing to order.

In recent years, the Committee has witnessed an alarming trend in the SBA's budget regarding entrepreneurial development programs. Despite reports that the federal government is riddled with redundant programs for entrepreneurs, the SBA has increasingly spawned its own entrepreneurial development initiatives. In doing so, the SBA has repeatedly requested increased funding for its own initiatives while allowing funding for statutorily authorized programs, such as SBDCs to remain static.

The Committee, on a bipartisan basis, has expressed concerns regarding the SBA's diversion of funds. Earlier this year, Ranking Member Velázquez and I sought clarification from the SBA on how they intend to utilize funds allocated to these initiatives. Together we sought to ensure that scarce taxpayer dollars would be properly utilized on truly necessary and job-creating programs with adequate performance metrics. The SBA's response did not allay these concerns, and I continue to question the necessity of these initiatives given the potential overlap with both private and public sector efforts already in existence. Additionally, as previous reports have uncovered inadequate funding metrics, and a lack of agency collaboration in the federal entrepreneurial development arena, I am concerned that the SBA lacks the ability to measure the success or failure of the programs it initiatives.

The majority of the funding goes to four of its initiatives: the Entrepreneurial Education Program; the Growth Accelerators Program; the Boots to Business Program; and the Regional Innovation Clusters Program. Our witnesses are going to be sharing with us their insights into these initiatives, and I thank all of you for taking time out of your busy schedules to be here. It does mean a lot.

On this Committee, we seek to promote entrepreneurship as a vital part of reviving the economy. Plus, owning your own business

is an integral part of the American dream. If changes to existing federal entrepreneurial development programs are necessary, I am certainly open to hearing those proposals. However, the SBA's current manner of picking and choosing how to use taxpayers' money while bypassing Congress's role is one thing that concerns me quite a little bit.

And with that I will turn to Ranking Member Velázquez for her opening statement.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

For more than 50 years, the SBA has been assisting America's entrepreneurs and small business owners. By providing loans, training, and contracting opportunities, the agency has helped create new businesses and the jobs that come with them throughout the nation. Last year, it channeled more than $25 billion in loans to small firms, provided counseling and training to over one million entrepreneurs, and helped small businesses secure nearly $100 billion in federal contracts.

To accomplish this, the SBA relies on a broad network of programs, most of which have been established in law for decades. These initiatives are overseen by the GAO and the agency's own inspector general and have codified regulations and performance benchmarks. As a result, many of these efforts have been able to deliver services to small businesses in a manner that is efficient for the taxpayers.

Unfortunately, the SBA has repeatedly diverged from this path and created numerous unauthorized pilot programs aimed at assisting businesses in underserved markets. Since 2003, the SBA has created not less than six entrepreneurial development pilots and 16 access to capital pilots. Unfortunately, independent evaluations of these pilots have shown SBA typically fails to properly set goals, conduct timely program evaluation or provide adequate oversight. This has led to increased costs for taxpayers, and in many circumstances limited agency resources going to waste.

For Fiscal Year 2015, the SBA has proposed continuing this practice. The agency has requested $15 million for entrepreneurship education, $6 million for regional innovation clusters, $7 million for goods to business, and $5 million for Growth Accelerators. In addition, the SBA has undertaken similar efforts in its Small Loan Advantage program, the Community Advantage Program, the Impact Investing Fund, the Early Stage Innovation Fund, as well as the Business USA website. The cost of this program for the next fiscal year will be $39 million and together constitute nearly 20 percent of the SBA's noncredit program's budget.

Some of these pilots may deliver limited benefits, and today the SBA is sure to provide the Committee with anecdotes, and maybe even some hard data of their success. The real question is why spend money on initiatives that lack the proven track record and safeguards that the other SBA programs have. This makes no sense.

Initiatives like the Small Business Development Centers have recognized delivery mechanism for nearly every entrepreneurial development pilot program the agency has created. Why not use it? Programs on the books, like the New Markets Venture Capital Pro-

gram duplicate the SBA's new SBIC initiatives but have wasted away due to a lack of funding. Why not fund it?

By choosing not to do so, the agency has continuously diverted taxpayers' dollars to programs that lack clear goals, programmatic guidelines, and performance metrics.

Today, we will examine these initiatives while trying to better understand the agency's spending rationale. With the recent sequester, setting appropriate budget priorities is more important than ever. Doing so is critical for both the small businesses who depends on SBA programs and taxpayers who foot the agency's bill.

The SBA remains an important institution for America's small businesses. It must continue to evolve and change with the growth of the economy, but it must do so in a manner that is well thought out and prudent. In this regard, I look forward to working with the agency to ensure that it can continue to progress and meet the needs of tomorrow's entrepreneur.

With that, Mr. Chairman, I yield back.

Chairman GRAVES. We obviously have a series of votes that came a little earlier than we were expecting. So I think what we will do is just—instead of breaking up your testimony we will just recess right now and come back and we will start with you, Mr. Jeppson. So we will be back, well, right after this one, I guess. So that makes that easy. So we will be right back.

The Committee is in recess.

[Recess]

Chairman GRAVES. We will call the hearing back to order.

Our first witness is Rhett Jeppson, the Associate Administrator for the Office of Veterans Business Development within the Small Business Administration. Mr. Jeppson oversees the Boots to Business Program, and additionally is currently a lieutenant colonel in the United States Marine Corps Reserve.

I would like to thank you for your service. Go ahead and start.

STATEMENTS OF RHETT JEPPSON, ASSOCIATE ADMINISTRATOR, OFFICE OF VETERANS BUSINESS DEVELOPMENT, UNITED STATES SMALL BUSINESS ADMINISTRATION; JAVIER SAADE, ASSOCIATE ADMINISTRATOR, OFFICE OF INVESTMENT AND INNOVATION, UNITED STATES SMALL BUSINESS ADMINISTRATION; TAMEKA MONTGOMERY, ASSOCIATE ADMINISTRATOR, OFFICE OF ENTREPRENEURIAL DEVELOPMENT, UNITED STATES SMALL BUSINESS ADMINISTRATION

STATEMENT OF RHETT JEPPSON

Mr. JEPPSON. Sir, good afternoon. Thank you, Chairman Graves, Ranking Member Velázquez, and distinguished members of the Committee. Thank you for inviting me to testify today.

Veterans are a cornerstone of small business ownership. They have the skills to adapt to the many challenges as well as the leadership and discipline required to own and operate small businesses.

Research demonstrates that veterans over index in entrepreneurship. In the private sector workforce, veterans are 45 percent more likely than those with no active military service to be self-employed.

As small business owners, veterans continue to serve our country and create jobs in our communities. According to the most recent U.S. Census data, nearly one in 10 small businesses is owned by a veteran. These businesses generate over $1.2 trillion in receipts annually and employ nearly 5.8 million Americans.

As a way to continue to help our veterans pursue entrepreneurship, SBA has created the Boots to Business. Boots to Business is the entrepreneurship track of the newly implemented Department of Defense Transition Assistance Program, commonly referred to as TAP, which was developed at the interagency level by the Department of Labor, VA, DOE, and SBA.

The goal of TAP is to help successfully transition our service members from military to civilian life. Through TAP, service members receives core education and post-service veterans' benefits. In addition, veterans choose from one of three optional tracks for training—higher education, Vo-Tech training, or entrepreneurship. SBA was directed to provide training to veterans and oversee participation by its resource partners in delivering this training to transitioning service members who opt in. In response, SBA created Boots to Business.

If a service member chooses to take advantage of the program, he or she attends a two-day course at their military installation. SBA Resource Partners collaboratively deliver face-to-face introductory entrepreneurship training. The instructors introduce transitioning veterans to the essentials of entrepreneurship, including a feasibility analysis, discussion of business financials, and a review of available SBA resources.

The final phase of the program is an eight-week, interactive course taught online by a professor. The course walks participants through the fundamentals of developing a business plan, as well as other techniques and tips for starting a business. The relationship that the participant establishes with the instructor helps reinforce the importance of the SBA resource partner network. The program not only teaches participants core business fundamentals, but it also introduces them to SBA's network that consists of VBOCs, WBCs, SBDCs, and SCORE counselors.

With the funding provided in the Fiscal Year 2014 budget, SBA plans to expand Boots to Business to more military installations within the United States and launch the program at overseas installations. Without any appropriated funding, more than 6,000 service members were trained in the first year of the program. We project that we will train an additional 12,000 to 15,000 participants through B2B in Fiscal Year 2014.

Participation in Boots to Business is as dynamic as the services themselves. In 2013, 21 percent of the participants were African American, 10 percent were Hispanic, five percent were Asian-Pacific Islander, and two percent were American Indian/Alaskan native. Women, especially, are over-indexing in the program. Though women make up 14 percent of the Armed Services, they make up more than 25 percent of our Boots to Business participants. Spouses of transitioning service members are also taking advantage of this course as a way to provide stability for their families.

Investing in our veterans is investing in America's future. We know that our nation's veterans helped reshape America's economy

following World War II. They helped to build one of the longest periods of economic growth in our country, and we know that they can do it again.

The SBA is committed to ensuring that these amazing men and women have the training, access, and opportunity they need to fulfill their potential as entrepreneurs and small business owners. There is no one who deserves to live the American dream more than those who have worn the uniform and fought to defend it.

Thank you for your time and allowing me to appear before this Committee.

Chairman GRAVES. Our next witness is Javier Saade, the Associate Administrator for the Office of Investment and Innovation at the Small Business Administration.

In addition to overseeing the SBIC, the SBIR, and the STTR programs, Mr. Saade is responsible for overseeing the Growth Accelerator Program.

Thank you for being with us, and I appreciate you coming out.

STATEMENT OF JAVIER SAADE

Mr. SAADE. Thank you, Chairman Graves, Ranking Member Velázquez, distinguished members of the Committee. Thank you for giving me the opportunity to testify here today.

SBA's Office of Investment and Innovation leads programs that provide the high-growth small business community with access to long-term financial capital and R&D funds aimed at commercializing innovations. We do this through three programs: the Small Business Investment Company Program, the Small Business Innovation Research Program, and the Small Business Technology Transfer Program.

The SBIC program has been a successful model for public-private partnerships. Professionally managed investment funds raise private capital from institutional investors. The private capital is then matched by SBA guaranteed leverage and enable the funds to capitalize more small businesses in the form of equity, structured loans, or combination of both.

The SBIR and STTR programs have helped small businesses compete and obtain federal R&D funds. One of the key goals of these programs is to commercialize small business inventions. These programs are paramount in keeping the U.S. at the forefront of science and technology in our global economy and in allowing us to expand the frontiers of human knowledge.

In addition to these programs, to keep the U.S. in a leadership role we are focused on innovation. During the bulk of our nation's history, the backstop of innovation ecosystems resided in the walls of large corporations. Companies like Xerox, General Motors, and DuPont were centers of innovation and entrepreneurial activity. They invented, produced, built, and distributed products creating world-changing technologies like the computer mouse and Teflon.

Times have changed. Small businesses have taken the lead, outpacing innovation rates of larger companies. Itemized pools of capital formed and more technologies were made available. This democratized the entrepreneurship process but has also created gaps in funding and scaling mechanisms.

The SBA is determined to be a partner in helping friends work and innovate in the new economy. This is why we are taking a role in developing and enhancing effective pass-through entrepreneurship which is important to our economic growth and to maintain America's competitive edge when it comes to nurturing innovative firms.

SBA runs two programs to address these gaps: the Growth Accelerator Fund and the Regional Innovation Clusters which my colleague, Tameka Montgomery, will discuss further. Accelerators focus on start-ups and early-stage firms. Clusters focus on scalable and more mature firms. Both are critical to the growth of regional economies and address different stages in the lifecycle of businesses. Accelerators are physical microcosms of the larger clusters. They provide physical space, mentoring, networking, and often capital to the smallest start-ups, usually on a rotating basis of three to nine months or until a start-up can graduate and continue to grow on its own.

Accelerators fill this gap in new and exciting ways, and they are growing. Our agency estimates that there are about 700 accelerators in the United States. We are launching a $2.5 million competition for accelerators. The awards are meant to assist in funding their operations and to allow more capacity to scale up. The competition will award capital to the best-in-class models and will focus on geographic areas in which financing is in short supply, as well as models that are run by and support the underrepresented groups.

The evaluation criteria will be similar to those we use for our SBIC applicants: management team, track record, business model, and policy impact, including identifying what gaps the applicant will fill. We will choose entities that have the best models for financial success and impact. Winners will be selected by a combination of SBA personnel, venture capitalists, and entrepreneurs, and our hope is to announce winners by the end of the fiscal year.

We plan to forge long-term partnerships with these accelerators. Through establishing these relationships, we will be introducing a sector which is historically unfamiliar with our agency's suite of services to our resource partners programs and our more traditional loan programs. The SBA must lead the new economy and meet the needs of scalable and high-growth small businesses.

I look forward to working with all of you on these and other programs that will help us achieve this goal. Thank you so much.

Chairman GRAVES. Our final witness is Tameka Montgomery, the Associate Administrator for the Office of Entrepreneurial Development at the Small Business Administration. In this capacity, Ms. Montgomery is responsible for overseeing the SBA's counseling and training programs for entrepreneurs. I appreciate you being here today. Thanks. Please go ahead.

STATEMENT OF TAMEKA MONTGOMERY

Ms. MONTGOMERY. Chairman Graves, Ranking Member Velázquez, and distinguished members of the Committee, thank you for inviting me to testify before you about your Regional Innovation Clusters and our Entrepreneurship Education Programs.

Strong and thriving small businesses are key to a flourishing economy. While we know that small businesses create two out of every three net new jobs, the bulk of these jobs are being created through the sustained, incremental expansion of existing small businesses across a wide range of industries. According to outside sources, 92 percent of new jobs come from the expansion of existing businesses, while start-ups accounted for around seven percent of net new jobs in the past decade.

SBA believes that by providing additional technical assistance to more growth-oriented entrepreneurs, our government's limited resources will be maximized and strategically focused on the firms that have the highest potential to create positive economic impact. SBA's clusters and entrepreneurship education programs do exactly this. Each program has a proven track record of helping entrepreneurs better lead and grow their businesses.

SBA created the clusters program to strengthen small business participation in existing regional economic clusters. We do this by fostering a network of small businesses, universities, and investors that work to grow a related set of industries.

Leveraging these resources, each cluster acts as a networking hub, connecting small businesses to innovation assets, while providing targeted matchmaking, training, and mentoring.

Small businesses participating in our clusters are able to access new markets, commercialize products, thus accelerating their growth. These clusters are powerful at creating an environment where small businesses can successfully participate. According to the data, revenue of small business participants increased by 23 percent. Employment grew on average by more than 18 percent. And the program helped small businesses access more than 66 million in private funding sources as well as 14 million from federal SBIR and STTR awards.

The San Diego Advanced Defense Technology Cluster provides expert assistance with product development, as well as networking opportunities to help small businesses secure customers, investors in cybersecurity, autonomous systems, and other defense-related sectors. Resource partners, like the North San Diego Small Business Development Center, provide the businesses with information and management assistance on key building blocks of business success.

Like the clusters program, SBA's entrepreneurship education programs help equip entrepreneurs to better lead and grow their businesses. Growth-oriented businesses face an entirely different set of challenges than start-ups, and the Entrepreneurship Education Program provides them with some of the tools they need to sustain their growth trajectory. Through this program, we have seen much success with our Emerging Leaders Initiative. This initiative, now in its seventh year, was launched to assist small businesses in underserved communities that are poised for growth. By providing nearly 100 hours of in-person and out-of-classroom coursework over a seven-month period, business owners learn how to refine their core strategy, gain a stronger foothold in the market, and secure more customers.

A third-party evaluator found that 62 percent of 2012 graduates saw an average revenue increase of 45 percent, with median rev-

enue increasing from $894,000 before participation to $1.1 million following the first year of completion. Additionally, 40 percent of participants in 2012 reported security contracts with an average value of approximately $2.1 million.

Leveraging SBA's local presence and convening power, our district offices administer this initiative, while also engaging local resource partners in a variety of ways.

Both the Regional Innovation Clusters and the entrepreneurship education programs help to improve the competitiveness of high-potential, growth-oriented small businesses. We know these programs provide relevant assistance in education that address the unique challenges of growing small businesses.

Thank you for the opportunity to testify before you today. I look forward to answering any questions that you may have.

Chairman GRAVES. I will start off with Mr. Collins.

Mr. COLLINS. Thank you, Chairman.

I am new to Congress, but I am not new to life. I have noticed from the opening statements of our chairman and ranking member that you have united this Committee in opposition to the SBA's continued evolvement of new programs and not perhaps funding, as the ranking member said, the SBDC as we should. So I am really baffled by this.

And so let me ask you kind of, do you not care what Congress things? Mr. Jeppson? Was it not obvious to you that we are not happy with you and your new programs, right? You have sensed that? You heard the opening statements, right? Or did you?

Mr. JEPPSON. Sir, I did hear the statement.

Mr. COLLINS. So what do you think about that? Does that concern you at all?

Mr. JEPPSON. Sir, I understand that there is some concern about new programs and about metrics here.

Mr. COLLINS. More than a concern.

Mr. JEPPSON. Yes, sir.

Mr. COLLINS. Are you not concerned that you seem to be flying in the face of what Congress wants? I mean, do you really not care? Does your agency not care?

Mr. JEPPSON. Sir, I cannot speak for the other programs, but I will tell you that in my case I think that we are fulfilling the responsibility that Congress gave us. The organizing language in my statute that set up my office, 10650, we were tasked to provide entrepreneurial development among other things to service veterans. In the 2008 Small Business Act, we were specifically directed to participate in the TAP program. If you look at the program or the statute that authorized TAP back in 1990, we were authorized——

Mr. COLLINS. All right. Well, let me ask Mr. Saade. I will ask you the same question. You have heard the opening statements, and clearly we would like you to be taking another direction relative to, you know, we are not looking for new programs. Is that obvious to you? We in Congress are not looking for new programs. Is that clear or not clear?

Mr. SAADE. Thank you for the question.

Our general legislative authority for these programs——

Mr. COLLINS. I am not asking about authority. Is it clear that we are not looking for new programs? From the opening statements

of our chairman and ranking member, is that clear or is that somehow——

Mr. SAADE. It is clear you want to discuss how we arrived at these programs.

Mr. COLLINS. It is not clear that we do not want new programs? We would prefer you to be funding at a better level existing programs, that is not clear to you? I think it should have been clear.

Mr. SAADE. I heard the comments. Absolutely.

Mr. COLLINS. Are you going to relate that back to your superiors, that Congress is not happy with these new programs? We are more than not happy. We do not want any more new programs. Is that clear? Is it?

Mr. SAADE. I am listening to what you are saying. Yes.

Mr. COLLINS. Okay. All right.

Ms. Montgomery, I will ask you the same thing.

Ms. MONTGOMERY. Well, yes. Obviously, from your comment, it is very clear on your concerns about the programs, and I think that is the reason why we are here today is to answer any questions that you may have regarding the reason why we have launched these programs, and then also the evidence on how these programs impact small businesses. So that is why we are here today.

Mr. COLLINS. Yeah. I guess, again, like I said, I am new to Congress. I am not new to life. It just is astounding to me that with that much clear direction, bipartisan united opposition to this agency's continuation of new program after new program when we have limited funding, and clearly we are not satisfied with the metrics or the follow-up that goes with it, but your agency seems to just not care about Congress, which represents the people and the dollars and the funding. And I really do not get it. I mean, usually people do recognize the direction of Congress, so I guess what I would just hope is that you report back to your supervisors, plain and simple, we do not want new programs. If we wanted new programs, we would tell you we wanted new programs. We want you to do a better job on current programs, taking the dollars we have. Again, as the ranking member said, the SBDCs do work. We do not need people going on a wild goose chase. And if you have got so many people there you have got nothing to do but dream up new programs, maybe you need less people. That would be my conclusion. Let us work on what we have got and all these folks creating new programs, I would say it is obvious to me we do not need you. I would remove you from your positions and then I would save the taxpayers money. That is what I would do.

So thank you, Mr. Chairman.

Chairman GRAVES. Ranking Member Velázquez.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Definitely, personally, I am embracing the issue that it is Congress's authority. We are the ones that create new programs, but you decided to go ahead and create new pilot programs. And it is our responsibility to make sure that you have proper mechanisms in place so that we could measure whether or not those programs are producing the results that are expected.

I would like to talk to you about the entrepreneurship pilot program. It has been expanded to 27 communities by 2012, and your

numbers are telling us that only 450 business were assisted annually. And this, when you look at this number, 450 and compare it to over one million clients assisted, 15,000 businesses created at SBDCs, Women Business Centers and SCORE chapters alone, then we question how do we take money, why do we cut money from the Women's Business Development Center, the Small Business Development Centers that have a track record that are assisting over a million client a year and creating 15,000 businesses to put their money into a program that only has been able to create 450 businesses annually.

Ms. Montgomery, in order to participate in the SBA's Emerging Leaders Program for 2014, a business must have at least $400,000 in revenue; right? And been in operation for at least three years. Given this, I guess it is not a surprise that the SBA found that the companies that participate in this program become successful because, indeed, they are successful. They have $400,000 in revenues and have been in operation for three years.

So my question is, with all the emphasis on start-ups, why not focus on those small businesses that are truly struggling and could benefit from the intensive training of this initiative?

Ms. MONTGOMERY. So I want to thank you for the feedback that you gave with respect and the confidence that you have in our Small Business Development Centers. I was a SBDC director for seven years, and so I know about the hard work that SBDCs do and what their capabilities are. One of the unique things about the Emerging Leaders Program as I shared with you earlier is that it provides 100 hours of in-person and out-of-person classroom work. And I know just from my personal experience with leading a Small Business Development Center and serving a number of small businesses, it is quite a challenge for SBDCs to invest that much time into a program when average SBDC clients might receive about five hours or more of service, and so this particular program——

Ms. VELÁZQUEZ. My question is why are you providing 100 hours in training to a company that has $400,000 in revenues and has been existence for three years, proving that it is already successful? Why not then focus on those businesses that are struggling?

My next question is to Mr. Saade. According to industry statistics, there are more than 100 accelerators operating in the U.S., with more than $5 billion in funding commitments. Right?

Mr. SAADE. Go ahead. I am listening.

Ms. VELÁZQUEZ. Even though accelerators are growing rapidly without government funding, so I just would like for you to explain to me, if the industry has $5 billion in funding commitments, why does SBA create this program and put $7.5 million in the accelerator program rather than doubling the funding for microloans? Because $5 billion clearly, there is no such need to create a program diverting money that should go to the microloan program or SBDCs. What gap, $7.5 million, is filling that the private sector is not?

Mr. SAADE. The number is actually 2.5, not 7.5 million. And you are correct that there is a burgeoning and thriving accelerator network in the United States. No question. The same can be said about a thriving and burgeoning research and development commu-

nity. And the same can be said about the banking industry. And the same can be said about alternative asset management. But there are definitely gaps. And when we look at what is happening with the accelerator, the entrepreneurial ecosystems around the country, they are typically concentrated in states. If you were to look at where the venture capital and some of these accelerators happen, they are very concentrated in some states. So we do see some gaps that some of these accelerators in other places, so that everybody can have access to the potential of creating another Air B&B or another company that comes out of these accelerators. So the point of the program is to actually expand that ability to accelerators across the land.

Ms. VELÁZQUEZ. So the SBA cannot use its influence to get those accelerators to expand geographically, and so I do not know, and I do not understand what $2.5 million impact is going to have in a $5 billion industry. I do not.

My next question is to Mr. Jeppson. The Boots to Business pilot relies heavily on Internet-based video instruction; correct?

Mr. JEPPSON. No, ma'am. We conduct a two-day course on each of the installations, and we actually use the Resource Partner Network to deliver that two days in-person. So we have SCORE, SBDCs, WBCs, those that are located close to the base, to actually do that two-day training.

We do have an eight-week online component that does do business plan development. That reaches a portion of the students who opt into that program.

Ms. VELÁZQUEZ. So how do you measure the efficiency and efficacy of the program in terms of the online training?

Mr. JEPPSON. Right. So we look at that, just like we would any other program. And so what we have focused on right now——

Ms. VELÁZQUEZ. Can you give me metrics?

Mr. JEPPSON. I can give you metrics right now on what the throughputs are. As you know, most service members, the program—I should back up. The VOW Act in 2011, which made TAP mandatory for all service members, became effective last October. So we are within the first year of operation where all service members are required to go through.

So ideally, the service member goes through TAP now a year prior to leaving the service, so it will be this October before we see the first group of service members leaving the service. I am sure there are some who already have, but that is where we will actually see when the new business starts.

I can give you the numbers of how many went to the two-day course, the numbers who have gone to the eight-week online course, those who completed the eight-week online course. As I mentioned, we did that without any funding, so capacity was an issue. We were only able to get a fraction and the waiting lists were long for the eight-week online course. But our intent is to be able to tell you how many new starts we have got at the one year mark, at the three-year mark, and what the mortality rate of the business is at five years.

If you look at our other veterans' programs, I can tell you that for EVB, for example, or VWISE. And I will tell you that in our programs, which have an online component, our start rate is over

50 percent at first year and at year three we are over 70 percent of participants who complete the course starting new businesses. So our track record with veteran entrepreneurship is very high, but we are still within that window where we cannot give you a new start number.

Ms. VELÁZQUEZ. And will you submit to this Committee the metrics and the data collection?

Mr. JEPPSON. Absolutely.

Ms. VELÁZQUEZ. Okay.

Mr. JEPPSON. Absolutely.

Ms. VELÁZQUEZ. Mr. Saade, and this is my last question, the Growth Accelerators Pilot Program was originally envisioned to operate with $25 million in appropriations and require a four-to-one private investment matching. Is that correct?

Mr. SAADE. That was the original intent. That is correct.

Ms. VELÁZQUEZ. So would you explain to me why was the matching requirement eliminated in the Fiscal Year 2015 budget request?

Mr. SAADE. The program, as well know, it is a brand new program.

Ms. VELÁZQUEZ. Yeah, I know that.

Mr. SAADE. And we just received funding for it eight weeks ago. And we just recently received authority from OMB to implement it. We are in the process of running a competition to supply that money, so that was the most efficient way.

Ms. VELÁZQUEZ. My question is why was the matching requirement eliminated in the Fiscal Year 2015 budget?

Mr. SAADE. I have to get back to you.

Ms. VELÁZQUEZ. Well, it is important. Let me explain to you. Because we are facing budgetary constraints, and we do know about the effectiveness of the Small Business Development Centers, of the Women's Business Development Center, of the New Markets, SBICs. And for the Women's Development Center, there is a matching requirement and they have to fulfill that. So why is it that the administration eliminated this requirement when money is an issue? So we are going to have the public part of it, so the government is putting the money, but then the private sector is not required to put their part of the money. That is not right.

Mr. SAADE. So the way in which accelerators work is you are not making bets or specific types of investments in companies. Just like the SBICs work, where you are providing money to platforms. So the idea behind the program, and it is actually pretty scalable, is that if you provide some operational funds to some of these accelerators in areas where there are gaps, not that much money is probably enough to get some of those companies within the accelerators to get there. So if we would have had more capacity to do it, we would have gone in a bigger way, but with what we have we are able to do it.

Ms. VELÁZQUEZ. I guess the simple answer here is that it is an unauthorized program. And basically, taxpayers are the ones paying for it after we created this illusion that it is a public-private partnership.

Thank you, Mr. Chairman.

Chairman GRAVES. Mr. Luetkemeyer.

Mr. LUETKEMEYER. When I looked at the information for the hearing today and I saw what was going on I was like, you have got to be kidding me.

I am kind of curious. When you started creating all these programs, did any of you contact the ranking member of the chairman to see if it was okay to go ahead with this? Or did you just continue on down this road without any sort of Congressional correction whatsoever?

Ms. Montgomery, yes or no?

Ms. MONTGOMERY. Well, I was not in this role when these programs were created. As I mentioned, the Emerging Leaders Program has been around since 2007, and the Regional Innovation Clusters has been around since 2010. And so I am not able to answer your question.

Mr. LUETKEMEYER. Okay. Mr. Saade.

Mr. SAADE. The agency takes direction on what programs to fund from the Joint Statement of Managers from the Appropriations——

Mr. LUETKEMEYER. You did not call the chairman or the ranking member to see if it was okay to expand your role. Yes? No?

Mr. SAADE. Me, personally? No.

Mr. LUETKEMEYER. Okay.

Mr. JEPPSON. Sir, if I could, we believe that we have statutory authority to execute——

Mr. LUETKEMEYER. Well, obviously today there is a lot of discussion about that. We do not think you do.

Mr. JEPPSON. Sir, in the 2008 Small Business Act, it directs us to participate in the Transition Assistance Program. That is what Boots to Business is. It is simply the entrepreneurship track of the Small Business Act that authorizes——

Mr. LUETKEMEYER. It looks like——

Mr. JEPPSON. Sir, it is also authorized again in the BOW Act and in Public Law 110 which was the originating act for TAP. So I had what I believe was authorization and finally received funding this year to execute what we were authorized to do for some time.

Mr. LUETKEMEYER. Where did you get all the funds? You took funds away from other programs to do this, did you not? All three of you, you took funds away from other existing programs to do these new programs. Is that correct?

Ms. MONTGOMERY. No, we did not. We received line item funding for Fiscal Year 2014 for the programs that we are discussing today.

Mr. LUETKEMEYER. Mr. Saade.

Mr. SAADE. It is the same answer. Line item funding.

Mr. JEPPSON. Sir, the same here. The $7 million that we have for Boots to Business is a new appropriation and a line item funding in the ED account.

Mr. LUETKEMEYER. Well, this is kind of interesting. There does not seem to be that feeling on this side of the table. I am very concerned about the direction of the agency from the standpoint that it does not seem to be a coordinated effort between the agency and Congress. As a member of Congress, our job is to represent the people, their concerns, their money, and make sure that it is maximized by the way it is spent to help the economy. SBA is some-

thing that should be helped with our local economies, the small business folks. Those dollars, we as a congressional group are responsible for those. And to basically go off and do some of these initiatives, which I applaud your willingness to think outside the box and do some new things here perhaps, but some of these look like duplicative programs to me. We are taking money from other programs, depending on what agency you were looking at, and it does not appear to us to be the direction you need to go.

Mr. Chairman, I would recommend that you request a report from these different agencies and probably SBA as a whole and have it submitted to you within the next 60 days for these folk to evaluate what programs they feel are necessary, they would support, and ask for approval from this Committee to enlarge their role to those new programs, and also ask in that report which programs are going to wind down and how quickly they are going to get done, because I think it is important that we control the SBA. That is our directive. This Committee's directive is to control this agency and be responsible for its actions, and at this point it does not seem like we are doing that.

So I appreciate you bringing this Committee hearing to us today, and I certainly applaud your efforts to try to again get our Committee in charge of the actions of the SBA.

With that I yield back.

Chairman GRAVES. Thank you, Mr. Luetkemeyer.

I might point out that on February 21st, Ranking Member Velázquez and I, we did request details on the SBA's use of funds for these various initiatives, but the response we received back, it appeared completely incomplete.

Mr. LUETKEMEYER. Mr. Chairman, with all due respect, I think we need to follow up on that.

Chairman GRAVES. We are.

Mr. LUETKEMEYER. And if we do not get a response, I think the director needs to be in front of us within 30 days here to solve this problem.

Thank you, Mr. Chairman.

Chairman GRAVES. Mr. Schrader.

Mr. SCHRADER. I will yield my time to Ms. Chu. She has got to leave here directly and go after the next.

Chairman GRAVES. Ms. Chu? Go ahead.

Ms. CHU. I am not necessarily against any new program; however, I do want to make sure that a program is not redundant and that it is authorized and that it is not taking away from other important programs.

And so I wanted to ask Mr. Jeppson about the Boots to Business Program. I wanted to know, you have the Transition Assistance Program, you have the Veterans Business Opportunity Centers, so why did you feel the need to create this program and also make it seem as though it is a different program?

Mr. JEPPSON. Yes, ma'am. It is actually apples and oranges, if you will.

The VBOCs were authorized in 2008 under the Small Business Act. Well, those are similar to SBDCs or WBCs, and there are 15 of them scattered throughout the nation. With Boots to Business, it is the track that we teach as part of the Transition Assistance

Program for transitioning veterans, those leaving active service and returning to civilian life. The VBOCs in one or two instances are co-located next to military installations, and they do teach the Boots to Business class. But many of them are located in areas that are not close to installations, but they focus on the veteran entrepreneur who is out there already starting a small business or in the start-up phase in their hometown when they return. As you know, most veterans will exit the service and return to their hometown and it is nowhere near an installation. So the limited number of VBOCs we have and the rest of the SBA Resource Partner Network is there to support those veterans. But the Boots to Business money is directed specifically at the transitioning vets and handles—when TAP became mandatory, we started to get an influx of veterans that come through the TAP pipeline. So where we had a few thousand going before when it was optional, now we have 250,000 every year who come through the pipeline. So we needed to have a program to handle the number of veterans that would take the entrepreneurship track, and that is what Boots to Business is focused on.

I can tell you that as a veteran who has transitioned and ran a small business and made a few mistakes when I was running that small business, I wish I would have known about a SBDC or a VBOC just down the road from my house. It could have saved me a lot of headaches.

In the same vein, one of the most important things that we do in the Boots to Business class is, because we do ask the resource partners to teach those classes on base, and now with this funding we will actually pay them to do that and cover their travel costs, the introduction to that network is extremely important, because when they do transition, they are not going to leave from that installation and start a business in that community. They are going to go back home and start their business, whether it is rural American or inner city America or the suburbs. And so that knowledge and that interaction with the Resource Partner Network is one of the big benefits we see in the Boots to Business Program, which is simply the name we gave to the Transition Assistance Program, our component of the Transition Assistance Program that we have been told by Congress to execute.

Ms. CHU. So I understand, because you said it a few times, about the authorization for the Transition Assistance Program, but did you really need to develop this Boots to Business Program? Because I do not think there was an authorization specifically for a Boots to Business Program; right?

Mr. JEPPSON. No, ma'am. What it does say is it tells us to develop written materials and materials for the TAP program. Boots to Business was just a branding that we gave to those materials that we created for the Boots to Business, and then with the service, as you can imagine, the service is like a uniformed product for all of the service members and it is modular and it fits within the TAP Program. That is what we have distributed to the resource partners to use. So that if you are exiting from Stuttgart, Germany, or if you are exiting from Davis-Monthan or Pearl Harbor, you are going to get the same curriculum taught by a resource partner and that it is uniform across there. It makes it easier for our service

members to deliver and for the Department of Defense to fit it in their modular curricular system.

Ms. CHU. So basically, you are saying that this really is the Transition Assistance Program, a subcomponent of it?

Mr. JEPPSON. Absolutely. It most certainly is.

If I could, just briefly, it is one component. There is a component for Vo-Tech and there is one for Higher Education. And there is mandatory for all people, all transitioning service members, an employment workshop that is run by the Department of Labor. We think that it is beneficial to those who are not interested only in starting a business right off the bat but because it is modular, many of the people who go through the Vo-Tech training will come back and take that because we believe that a lot of the people who go and further their vocational education will be small business owners in their community and can benefit from the Boots to Business or the entrepreneurship track of TAP.

Ms. CHU. So I am assuming then that you are not taking money away from the Veterans Business Opportunity Centers, the Small Business Development Centers, and the SCORE chapters? That is what I am concerned about.

Mr. JEPPSON. No, ma'am. We are not taking any money away. As a matter of fact, what we had last year is we put 6,000 service members through Boots to Business, and I was not able to reimburse any of the resource partners for the materials or their time or their travel. We are putting grants in place currently to be able to give them a stipend and the travel money for each of the Boots to Business classes that they teach. So it will actually go directly to the resource partner who delivers the course online. That is what a portion of that $7 million is for. In fact, it is almost half of the $7 million, a little over $3 million total.

And more specifically, to the VBOCs, the VBOCs were not cut any. The Veteran Business Owners were not cut any. They have been flat-lined at about $2.5 million since 2008.

Ms. CHU. Thank you. I yield back.

Chairman GRAVES. Mr. Schrader?

Mr. SCHRADER. Thank you, Mr. Chairman.

I understand you are all the sacrificial lambs, so please do not take anything I say personally. You are doing what you are trying to do and help people get jobs, and I appreciate that.

Having said that, I guess I am curious. Each one of you real quick, what are the top two, maybe three programs in the SBA for small businesses? What do you think your top two or three programs are?

Start with you, Ms. Montgomery, if you do not mind.

Ms. MONTGOMERY. Well, I believe the top thing that we do is provide counseling and training to small businesses.

Mr. SCHRADER. I meant which program?

Ms. MONTGOMERY. So the programs that come out of my office, the Office of Entrepreneurial Development.

Mr. SCHRADER. And you, Mr. Saade?

Mr. SAADE. We each manage, as you pointed out earlier, we each manage a particular part of the agency.

Mr. SCHRADER. Well, I am not talking about just yours. I am talking about the entire organization.

Mr. SAADE. The entire agency? I am not in a position to—we have a new administrator, as you know, and she is tasked with figuring out all the programs. What I can echo, what Tameka said, is that the mission of the agency is to aid counsel and help small businesses. And we do that through all these programs.

Mr. SCHRADER. Mr. Jeppson, what do you think?

Mr. JEPPSON. Sir, if we broadly bend it, there are two things that we do that are hugely important. Number one is we provide access to capital. And two is we provide entrepreneurial development. But the two go hand-in-hand. With the entrepreneurial development, we help prepare small businesses, and each in our own way, but then that access to capital is vital. It is vital to our small businesses.

Mr. SCHRADER. I appreciate that. That is probably the best answer I have heard so far, if I may say so.

You know, really, it is clear from my tenure on this Committee, and I think the ranking member and the chairman would agree that the SBDCs are right up there, the 504 program, and the 7(a) program. Outside of that, I mean, there are a lot of other good programs, maybe some of yours, but those are the top ones.

I guess my question would be is that adequately funded? Is anyone here prepared to answer that question? Or is that again out of your sphere of influence and expertise?

Let us start with you, Mr. Jeppson, this time.

Mr. JEPPSON. Sir, I would hate to comment for the SBDCs. I can tell you that our VBOCs operate on a shoestring. Our average grant is about $150,000 a year, and that is not a lot when you consider the amount of service that they give to our veterans. As I mentioned, we only have 15 VBOCs.

Mr. SCHRADER. That is okay. I appreciate the work you are doing for our veterans, absolutely. With the limited funding, as the ranking member pointed out, it is tough to justify a lot of these other new programs, and I am looking forward next year to seeing absolutely great metrics, how well these new programs are doing compared to the older programs that are now underfunded as a result.

Did any of you know if the Small Business Development Centers got an increase in funding this year? Ms. Montgomery?

Ms. MONTGOMERY. Yes. Over the previous year they did. And so for Fiscal Year 2014, SBDCs are at $113,625,000.

Mr. SCHRADER. Is that adequate for their mission?

Ms. MONTGOMERY. Yes, it is.

Mr. SCHRADER. Okay. Well, my own SBDC officer does not agree with you, and I bet if I was to talk to every single SBDC officer around the country and various things, I do not think they would agree with you. That would tell me, with all due respect, you are a little out of touch with the folks you all are supposed to be hopefully representing and advocating for at the end of the day. I think it is a little disconcerting that the agency—thank you for your comment—that the agency feels like they can legislate all these new initiatives.

I guess my last question perhaps would be—second to last question would be is it the responsibility of the executive branch to be legislating programs?

I will start with Mr. Saade, just to make sure I am mixing it up.

Mr. SAADE. No. That is not the intent of the division of government. The executive branch is to execute and manage.

Mr. SCHRADER. That is my recollection, too.

Mr. Jeppson?

Mr. JEPPSON. Absolutely, sir. And as I mentioned earlier, we feel that we are, and at least in my instance, executing the statutes that are on the book.

Mr. SCHRADER. I appreciate that.

Ms. Montgomery?

Ms. MONTGOMERY. We believe we are operating under the authority that we are given.

Mr. SCHRADER. But you do not think you should be legislating, is that correct?

Ms. MONTGOMERY. Correct.

Mr. SCHRADER. Okay. So we agree on one thing anyway so far on the panel today. That is a good start. And I appreciate the fact you all think you are operating statutorily along the lines of what is allowed. But as some of my colleagues have said on both sides of the aisle, we are obviously in some disagreement. What is prohibiting you all from coming to this Committee after you dream up—that sounds inappropriate—come up with an excellent new program and getting our consent or buy-in? I mean, most good businesses, every small business I have been involved in, usually you come up with an idea. You have to get the team involved and have them support it, otherwise it goes down. So what is preventing you from coming to us about the Boots Program or the Entrepreneurial Growth Program or whatever? Why have you not come before us and said, "Hey, we would like to pursue this. We think it is under our statutory authority. Do you agree?" since we sort of make the statutes.

Mr. Jeppson?

Mr. JEPPSON. Sir, happily. You know, I will be honest with you, Boots to Business, we felt like we were implementing the statute that Congress had passed. You know, we believe that we have legislative authority. It is very——

Mr. SCHRADER. I understand all that. You have all been very clear. But why not come and make sure that we agree with what your interpretation is?

Mr. JEPPSON. Sir, I think we have. I must be missing the disconnect on where, if we have statutory authority and appropriation, that we have——

Mr. SCHRADER. Statutory authority is your—I will be done here real quick, Mr. Chairman. I apologize.

Statutory is your interpretation. The Supreme Court interprets a lot of things we never intend, and with all due respect, so do the agencies. I know it is with good intentions. The real world is we are the people that should be deciding what happens or not. Whether or not it is a good idea or not. We are the people that are elected. You are unelected people. You are unelected officials, and I appreciate you are willing to serve. Public service is tough these days, whether you are on this side of the dais or your side of the dais, but it is our job—our job, not yours—to come up with the programs that should be going forward. And if they are not what we

are wanting, and you have heard uniformly no one is supporting any of the programs that you have come up with, it seems to me the logical thing would be to go back to the legislators, to people who you agree should be legislating and say is this a correct interpretation of where we should be going?

With that, I yield back, and I appreciate you coming all before us.

Chairman GRAVES. Mr. Schneider?

Mr. SCHNEIDER. Thank you, Mr. Chairman. I believe I am the last, so we are almost at the end.

I appreciate you coming here. I appreciate the candor within the exchange.

Look, having spent my career with small business, I understand the need for constant innovation and coming up with new ideas. I think what we are hearing today is the innovation within the SBA, within the agency, needs to fall underneath the guidance of this body of the people here. There needs to be measurement, and we touched on some of those, and there needs to be accountability. And my frustration is where we get outside of those bounds. But it is important that we do make sure that the guidance comes here. The need to help small businesses grow and prosper, accelerators to help small businesses go from idea to start-up to step-out to success, help veterans that are coming back and going truly from Boots to Business but integrating back into civilian society, they need to know the lessons they have learned and the skills they have developed, how to apply them.

And again, speaking just for myself, there is no greater application than being your own boss, but there is no better way to be your own boss than learning the lessons from other people. So these, while good ideas, have to fall within the guidance of the programs we are laying out or the objectives we have set.

Having said that, Ms. Montgomery, let me turn to you and talk about the sense of clusters, because there is a lot of discussion around the country on clusters and the ability to get people. In my district, we have a large pharmaceutical cluster, and there is a lot of small, medium, and large companies, but a lot of start-up opportunities. We have a lot of manufacturing. My district is the third highest concentration of manufacturing. There are small companies coming in there.

What do you see or can you further explain how clusters play a role in the strategy of what you are trying to accomplish at the SBA?

Ms. MONTGOMERY. Yes, thank you for the opportunity to respond.

You know, one of the things I said in my opening testimony is that the programs that I spoke about and that I am here to talk about today really focus on how do we help growth-oriented businesses scale up and grow? Because we understand and the research shows that jobs are really created by established businesses growing and expanding. And so what our clusters do is give small businesses an opportunity to participate in the clusters. We know that oftentimes in the clusters you have this conglomeration of large businesses that are receiving business, but sometimes small businesses are not able to get in there and really access the oppor-

tunities and the revenue generation that is taking place. And so with SBA, our clusters is really about how do we increase participation of small businesses in those various clusters throughout the United States so that we can see increase in jobs, increase in revenue of those small businesses. And so that is the role that SBA is playing in this space.

Mr. SCHNEIDER. Now, as far as clusters integrating with institutions like accelerators or incubators, I will throw it to both of you, how does that play, and how do we make sure that we are working hand-in-hand within the different departments of the agency and we are not creating the concern here you are hearing of redundancies and overlap and the alternative separation? How do we make sure that what we are doing is reinforcing each other rather than working against each other?

Ms. MONTGOMERY. Well, as my colleague mentioned in his opening statement, when we look at clusters, in a cluster you may have an accelerator that is participating in that broader cluster, so they are most definitely working together.

Mr. SCHNEIDER. Mr. Saade?

Mr. SAADE. Yeah. No, I think the way to think, I mean, you can probably put the different models in a continuum of where they are. Is it an idea on a napkin? Is it poised for very fast growth quickly or is it more measured growth? And you can map where those different models of acceleration or creating clusters around Centers of Excellence. So there is no duplication. These are two models that enable us to deliver on our mission, which is not only to continue to help create jobs, but also the small business economy, just like our overall economy, is a very complex machine. And a lot of the focus that we have been discussing has talked about a lot of the SBDCs and the traditional loan programs, which are for more traditional businesses, but there is another set of constituents which are a very important part of our economy and either they are growth or high-growth, but both of those things need to be served differently. So we are working within the bounds of our authority as we understand them. It sounds like there is obviously some disagreement. Are we doing it? Are we not? But at the end of the day what we feel is that just—you mentioned you were in the private sector. I was in the private sector, too, and the people we serve, be them in Main Street or in the high-growth sector, they are entrepreneurs.

Mr. SCHNEIDER. I think, and I will close with this, I think it is crucial, as you come up with these ideas, you work with programs, that you come to us. You talked about being within the mission. The mission comes from Congress. Comes from this Committee, and it is important that we understand that the work you are doing, the impact you are having, and I am going to close and touch on Boots to Business. The ability to help individuals and entrepreneurs is critical, but it has to fall within the guidelines of what we are laying out here. I think that is important.

We have a program in my state, in my district, a Veterans Rapid Employment Initiative. It is a two-week, simple program, but it is introducing veterans to new ideas, new opportunities that they may not have seen before. Stuff working in partnering a public-private sector partnership where you can do that. Bring it to us, high-

light it, celebrate it, and get us behind it, but make sure it is coming from our direction and not outside on the initiative.

With that, I will yield back. Thank you again.

Chairman GRAVES. With that, I want to thank you all for participating today.

It is evident that both the Committee and SBA want to bolster the growth and development of entrepreneurs around this country. However, with limited federal funds, the Committee has to ensure that necessary programs remain intact, while advocating for the elimination of those that are just simply redundant or ineffective.

And with that, I would ask unanimous consent that members have five legislative days to submit statements and supporting materials for the record.

Without objection, that is so ordered.

With that, the hearing is adjourned. Thank you.

[Whereupon, at 2:30 p.m., the Committee was adjourned.]

APPENDIX

U.S. Small Business Administration
Washington, D.C. 20416

Testimony Before the
U.S. House Committee on Small Business

Rhett Jeppson, Associate Administrator, Office of Veterans Business Development

April 30, 2014

Veterans are a cornerstone of small business ownership. They have the skills to adapt to many challenges as well as the leadership and discipline required to own and operate a small business. By investing in our veterans' futures, we are investing in the future of America.

As small business owners, veterans continue to serve our country and create jobs in our communities. According to the most recent U.S. Census data, nearly 1 in 10 small businesses are veteran-owned. These businesses generate about $1.2 trillion in receipts and employ nerly 5.8 million Americans.[1]

Reserch also demonstrates that veterans over index in entrepreneurship. In the private sector workforce, veterans are at least 45 percent more likely than those with no active-duty military experience to be self-employed.[2]

Boots to Business is the entrepreneurial track of the newly revamped Department of Defense Transition Assistance Program (TAP) and provides transitioning service members with the training, tools and resources they need to make the transition from military service members to successful business leaders.

The program not only teaches participants business fundamentals, but introduces them to the SBA network that consists of 15 Veterans Business Outreach Centers, more than 100 Women's Business Centers, over 900 Small Business Development Centers and more than 11,000 SCORE Counselors. Often times, when a veteran returns home, they do not live near a military installation, but these SBA Resource Partners are dispered through the United States in local communities.

Since the creation of the Transition Assistance Program in 1990, the Small Business Administration has been providing information and programs to those seeking to start their own small business.[3] The Office of Veterans Business Development, within the SBA, has been intimately involved in providing the programs and information to service members since we were directed to do so by Congress in 2008.[4]

The overall goal of the TAP, which was developed at the interagency level by DOL, VA, DOE and SBA, is to strengthen the transition of all of our service members from military to civilian life and to prepare them for success. Each service member will receive "core" education in post-service veterans' benefits. In addition, the goal is for each veteran to choose from three "optional" tracks for further, targeted training: 1) Higher Education; 2) Technical Training; and 3) Entrepreneurship.

Boots to Business is the entrepreneurship track of TAP. SBA was directed to provide training to veterans and oversee participation of its Resource Partners by delivering the entrepreneurship track to transitioning service members who opt-in to receive entrepreneurship training. In order to handle the increased flow of service members created by the VOW to Hire Heroes Act,[5] SBA used its existing authority[6] to meet its responsibility to train and educate veterans[7] by overseeing the participation of its Resource Partners.

The SBA's role in supporting veterans who are, or who want to become, business owners has never been more important. Many have either returned from overseas or are coming to an end of military career and have both the skills and the motivation to continue serving their country by building a business and creating jobs for themselves, their neighbors and other veterans.

In the first phase of the TAP program, transitioning service members gain exposure to smal business ownership by viewing an introductory video highlighting the character traits, skillsets and lifestyles of successful entrepreneurs.

If a service member chooses to take advantage of the Boots to Business program, they attend the two-day course, on their military installation. SBA Resource Partners collaboratively deliver face-to-face introductory entrepreneurship training as a network. The instructors introduce transitioning service members to the essentials of entrepreneurship including a feasibility analysis, discussion of business financials and a review of available SBA resources and programs.

The final phase of the course is an 8-week, interactive course taught online by Syracuse University professors. The course walks participants through the fundamentals of developing a business plan, as well as other techniques and tips for starting a business. The program not only teaches participants core business fundamentals, it provides a lifetime of business support available locally across the U.S. by introducing them to SBA's network of VBOCs, Women's Business Centers, Small Business Development Centers and SCORE Counselors.

With the funding provided for Fiscal Year 2014, the SBA plans to expand Boots to Business to more military installations within the United States and launch the program internationally. We project that we will train an additional 12,000–15,000 participants through Boots to Business in FY 2014, setting these separating service members on the path to realizing the American Dream of self-employment and small business ownership.

Participation in the Boots to Business program is as culturally dynamic as the services themselves. In 2013, 21 percent of Boots to Business participants were African American, ten percent were Hispanic, five percent were Asian/Pacific Islander and two percent were American Indians/Alaskan natives. Women, especially, are over indexing in Boots to Business. Though women make up 14% of the services, they make up 25% of Boots to Business participants. Spouses of transitioning service members are also taking advantage of the course as a way to provide stability for their families.

By training transitioning service members in the Boots to Business program, we are introducing them to the SBA network and the resources we provide. Introducing vets to SBA's network provides them with a network of counselors who will be able to assist them not only when they start their business, but continue to assist for the rest of their lives as they run and grow their businesses.

Investing in our veteran is investing in America's future. We know that our nation's veterans helped reshape the American economy following World War II. They helped to build one of the longest periods of economic growth in our country's history. And, we know they can do it again.

The SBA is committed to ensuring that these amazing men and women have the training, access and opportunity they need to fully recognize their potential as entrepreneurs and small business owners. There is no one who deserves to live the Amerian Dream more than those who wore the uniform and fought to defend it. Thank

you for your time today and for allowing me to appear before this committee.

[1] "Survey of Business Owners - Veteran-Owned Firms, 2007," U.S. Census Bureau, Department of Commerce, May 2011.

[2] "Factors Affecting Entrepreneurship among Veterans," Office of Advocacy, U.S. Small Business Administration, March 2011.

[3] 10 U.S.C. § 1142 (b)(13), Pub. L. 101–510.

[4] 15 U.S.C. § 657b (d)(1), Pub. L. 110–186.

[5] 10 U.S.C. § 1144 (c), Pub. L. 112–56.

[6] 15 U.S.C. § 637 (b)(1)(A), Pub. L. 106–554 and Pub. L. 108–447, 15 U.S.C. § 637 (b)(17), Pub. L. 105–135 and Pub. L. 108–447, and 15 U.S.C. § 648 (n)(1), Pub. L. 110–186.

[7] 15 U.S.C. § 657b (d)(1), Pub. L. 110–186.

U.S. Small Business Administration
Washington, D.C. 20416

Testimony Before the
U.S. House Committee on Small Business

SBA-Created Initiatives: necessary or Redundant Spending?

Javier Saade, Associate Administrator, Office of Investment and Innovation

April 30, 2014

Chairman Graves, Ranking Member Velázquez, members of the committee—thank you for giving me the opportunity to speak on some exciting programs today.

I am proud to report the important work my office is doing to support high growth small businesses across the United State; I want to start by giving a quick overview of the programs in our office. I will then discuss our regional innovation clusters program and our growth accelerator fund—two programs which are part of

what we call the entrepreneurship ecosystem and are designed to further support start-ups and job growth across the country.

SBA's Office of Investment and Innovation (OII) leads programs that provide the high-growth small business community with access to two things: financial capital and R&D funds aimed at commercializing technologically driven innovations. We do this primarily via three programs which you are familiar with—the Small Business Investment Company (SBIC) program, the Small Business Innovation Research (SBIR) program and the Small Business Technology Transfer program (STTR).

Since 1958, the SBIC program has served as a model of successful public-private partnership in which the SBA guarantees leverage to privately owned and professionally managed private equity funds that in turn provide long term loans and equity funding to small businesses. Last fiscal year, SBICs provided almost $3.5 billion in financings to 1,068 small businesses across the country, the highest amount of financings in over ten years. For every dollar of SBA-guaranteed leverage issued to SBICs in 2013, SBICs provided two dollars in financings to small businesses. Today, the program oversees about 280 active SBICs with over $20 billion in private and SBA-guaranteed capital under management. Given SBICs have already provided almost $2.4 billion in financings as of the FY 2014 midpoint, we expect to exceed FY 2013 numbers.

The SBIR and STTR programs are two set-aside programs designed to help small businesses compete in the world of federally funded R&D and help drive them towards commercialization of their inventions and ideas. These programs are paramount in keeping the U.S. at the forefront of science and technology in our global economy given the dearth of investment at the earliest stages of world-changing innovations.

The SBIR program operates across 11 government agencies through which R&D grants are awarded to small businesses, so they can support the needs of the federal government. Thanks to the work of this committee, this program is authorized to be 2.8% of the extramural research budget; and up to 3.2% by 2017 for all agencies with over $100 million in extramural budgets.

The STTR program operates across 5 government agencies and facilitates cooperative R&D between small businesses and research institutions in the United States. This makes up .35% of the extramural budget for the five agencies with extramural budgets over $1 billion.

In addition to these programs, my department works on a series of other projects related to innovation. To keep the U.S. in a leadership role, SBA, and in particular the Office of Investment and Innovation are especially focused on that second "I", the one for Innovation. Our office is committed to helping innovative Americans access capital and launch lasting businesses in new and cutting edge ways.

In the first half of the 20th century large corporations were key drivers of our country's innovations. This is no longer the case as the entrepreneurial ecosystem has been significantly atomized in

terms of innovation, capital, institutional support and human resources. This atomization has created an entrepreneurial ecosystem that is the most dynamic in the globe, but in which funding gaps still exist, especially geographics that are far from the coasts. In the past three years, almost 80% of U.S. early and seed stage venture financings were provided to companies in four coastal states: California, Massachusetts, New York and Washington.[1] These figures demonstrate that startups and small businesses in other parts of the country have less support from conventional private capital and the big banks. But what they can do is pool together talent and resources, share best practices and create their own local ecosystems. At the SBA we are aiding in this process through Regional Innovation Clusters and the new Growth Accelerator Fund.

Capital isn't available to small startups from large banks and institutions in the way it used to be pre-2007. Regional Innovation Clusters tap into resources, talent and capital to create deeply entrenched networks for industry or region specific groups of small companies. Through these clusters, companies have access to technology and opportunities which they otherwise wouldn't be able to tap into.

Accelerators are typically a physical microcosm (think of a hub) of these larger clusters (think of threaded spokes). They provide physical space, mentoring, networking, and often capital to the smallest startups; usually on a rotating basis of 3 to 9 months cohorts; or until a startup can graduate and continue to grow on its own. Accelerators fill a resources gap in the entrepreneurial ecosystem in a new and exciting way; and they're growing—SBA estimates that there are now about 700 accelerators in the United States.

To that end, SBA is launching a $2.5 million contest for accelerators. The cash awarded to contest winners is to assist in funding their operations and thus allow more capacity to scale up. The overall goal of the competition is to award capital to the best in class models, with a special focus on geographic areas in which financing is in short supply, and models which are run by women or other underrepresented groups.

SBA will use evaluation criteria similar to those we use to evaluate our SBIC applicants; management team; track record; business model/strategy; and policy impact (including identifying what gaps the applicant will fill). We will award entities that have the best models for financial success and impact. Winner will be selected by a combination of SBA personnel with experience in evaluating venture fund performance as well as people from the private equity industry.

We will be announcing this contest through a variety of media conduits, as well as through events such as Demo Days and webinars, in partnership with groups such as the Global Accelerator Network. We will make the award decisions by the end of

[1] Numbers based on Thomson One Data for all U.S. Venture Capital Deals between 1/1/2011 and 4/15/2014.

this fiscal year, and winners will be asked to report back results on a quarterly basis.

SBA will forge long term partnerships with these accelerators. Through establishing these relationships, we will be introducing a sector which, historically, has been unfamiliar with SBA's suite of services and connecting them to our resource partners' programs and our more traditional loan programs.

Thank you and I am happy to answer any questions you may have.

U.S. Small Business Administration
Washington, D.C. 20416

Testimony Before the
U.S. House Committee on Small Business

Tameka Montgomery, Associate Administrator, Office of Entrepreneurial Development

April 30, 2014

Chairman Graves, Ranking Member Velázquez, and distinguished members of the Committee. Thank you for inviting me to testify before you about our Regional Innovation Clusters and our Entrepreneurship Education Programs.

Strong and thriving small businesses are key to a flourishing economy. While we know that small businesses create 2 out of every 3 net new jobs, the bulk of these new jobs are being created through the sustained, incremental expansion of existing small

businesses across a wide range of industries. According to outside sources 92% of new jobs come from the expansion of existing businesses; while start-ups accounted for around 7% of net new jobs in the past decade.

SBA believes, that by providing additional technical assistance to more growth-oriented entrepreneurs, our government's limited resources will be maximized and strategically focused on the firms that have the highest potential to create a positive economic impact. SBA's Clusters and Entrepreneurship Education Program do exactly this. Each program has a proven track record of helping entrepreneurs better lead and grow their businesses.

SBA created the Clusters program to strengthen small business participation in existing regional economic clusters. We do this by fostering a network of businesses, universities, and investors that work to grow a related set of industries.

Leveraging these resources, each cluster acts as a networking hub, connecting small businesses to innovation assets while providing targeted matchmaking, training, and mentoring.

Small businesses participating in our clusters are able to access new markets and commercialize products, thus accelerating their growth. These clusters are powerful at creating an environment where small businesses can successfully participate. According to the data:

- Revenue of small business participants increased by 23%;
- Employment grew on average by more than 18%;
- And, the initiative helped small businesses access more than $66 million in private funding sources as well as $14 million from federal SBIR and STTR awards.

The San Diego Advanced Defense Technology Cluster provides expert assistance with product development, as well as networking opportunities to help small businesses secure customers and investors in cyber-security, autonomous systems, and other defense-related sectors. Resource partners like the North San Diego Small Business Development Center provide the businesses with information and management assistance on the key building blocks of business success.

Like the Clusters program, SBA's Entrepreneurship Education Program helps equip entrepreneurs to better lead and grow their businesses. Growth-oriented businesses face an entirely different set of challenges than start-ups, and the Entrepreneurship Education Program provides them with some of the tools they need to sustain their growth trajectory. Through this program we have seen much success with our Emerging Leaders Initiative. This initiative, now in its seventh year, was launched to assist small businesses in underserved communities that are poised for growth. By providing nearly 100 hours of in-person and out of classroom coursework over a 7-month period, business owners learn how to refine their core strategy, gain a stronger foothold in the market, and secure more customers.

A third party evaluator found that 62% of the 2012 program graduates saw an average revenue increase of 45%; with the median revenue increasing from $894,000 before participation to $1.1 million following the first year of completion. Additionally, 40% of participants in 2012 reported securing government contracts with an average value of approximately $2.1 million.

Leveraging SBA's local presence and convening power, our District Offices administer this initiative while also engaging local resource partners in a variety of ways.

Overall, the objective is for us to continue meeting the needs of small business owners in the dynamic and changing environment that exists for entrepreneurs. Our approach is evolving and to meet those needs our Entrepreneurship Education Program agenda will include more than the Emerging Leaders Initiative. In the coming weeks and months we will be looking at finalizing an initiative that builds off the existing platforms through programs run within the agency.

In closing, both the Regional Innovation Clusters and the Entrepreneurship Education Program help to improve the competiveness of high-potential, growth-oriented small businesses. We know these programs provide relevant assistance and education that address the unique challenges of growing small businesses.

Thank you for the opportunity to testify before you today. I look forward to answering any questions you may have. Thank you.

Statement of C. E. "Tee" Rowe

President/CEO, America's SBDC

Committee on Small Business

United States House of Representatives

April 30, 2014

Chairman Graves, Ranking Member Velazquez, I want to thank you for inviting America's SBDC to submit written testimony for the hearing record. I am the President of America's SBDC, the Association that represents the nationwide small business development center (SBDC) network of over 950 locations and over 4,000 dedicated professional counselors, advisors, specialists and support staff.

For 34 years the SBDC network has been providing services to small business owners and aspiring entrepreneurs. Over the years our member networks have developed a wide variety of services for small businesses of all sizes that are customized to meet the needs of regional businesses throughout the nation. During the hearing the SBA has testified to the need for additional services to small business owners to supplement the services already provided by resource partners such as SBDCs, SCORE and Women's Business Centers.

Our Association will not discuss the authority for SBA to conduct these programs. However, we believe it is prudent to discuss what services are already being provided by the SBDC networks, to meet the myriad of needs found among our robust small business communities.

As you know, SBDC provide services to small businesses at all stages of development. The mix of businesses usually varies depending on the region and their unique characteristics. A good rule of thumb is that we have a range of client status of 60/40 mix of existing and nascent (start-up) entrepreneurs. Annually, these ratios vary due to economic conditions and external factors such as disasters or market conditions.

The amount of time we spend with each client also varies. Our extended engagement clients receive a minimum of five hours of counseling with the average running much higher. SBDCs served over 201,000 counseling clients in 2013 and devoted over 1.4 million hours to them, an average of 7 hours. 58,000 of those clients were extended engagement clients (over 5 hours of counseling) and ranged from at least 5 hours and up to 204 hours. Note: Longer term clients span multiple years and usually involve ongoing assistance in areas such as intellectual property, new technologies or Our SBDC members manage their resources provided through your oversight to meet the needs of the client, and as we all recognize, each client is unique is presented with challenges that sometimes are very specific and manageable to substantial and requiring long-term systemic attention.

Intensive Entrepreneurship

In addition to our premier one-on-one counseling/advisement and mentorship, SBDCs also offer intensive training courses in combination with one-on-one to our more seasoned clients. A quick survey of SBDCs found that at least 25 of our 63 networks offered intensive training courses for businesses. This information is important. We believe Associate Administrator Montgomery was mistaken when she said that SBDCs don't have the time to devote to such intensive training. SBDCs devote time to those efforts now. The only thing SBDCs lack is incremental resources to expand those offerings without reducing other highly valued services to targeted constituents. Ms. Montgomery is correct in the sense that every one of our nearly 1,000 centers can't provide such services but, we work hard to make those services as widely available as applicable, again based upon community need.

We have attached a list of those programs and services for the record. A brief examination of the programs shows that most of them offer multiple weeks of training and counseling and are geared to existing businesses that are in that high-growth potential group. We often enjoin our local hosts, representing many of the finest higher education institutions in the nation, to augment the value of those programs for the small business owners. Candidly, this seems to make sense for us and our higher education partners.

However, it is also prudent to point out that these courses are often not limited to a certain size of business or ones that have experienced supernormal growth. SBDCs often have found that certain nascent businesses can benefit as much or more from intensive and broad training. We base some of this belief on our experience backed up by findings from the Kauffman Foundation. In a July 2010 study, Tim Kane, PhD, a Senior Fellow at the Kauffman Foundation found that start-ups are as likely to be job creators as existing businesses. This matches some of our own analysis which considers the resources required to assist each category and the resultant outcomes achieved by the respective group.

Fundamentally, SBDCs understand that observation from the simple premise that business education should be based on knowledge gaps and not size or industry.

What we also would like to reinforce is that SBDCs services are not monolithic. There is no "cookie cutter" answer to small business growth and success. To accomplish their mission SBDCs rely on keeping track of the service needs of their clients and developing curricula or services to meet those needs. That responsiveness is not accidental, that dates back to Congress' original design of the program and has been consistently restated in every legislatively approved action since then. In addition, the accreditation standards of the SBDC program, authorized by Congress almost 30 years ago, require SBDC networks to survey and monitor the needs of the small business community and tailor their services accordingly on a continuous basis. In that way, we see SBDCs as 63 laboratories dedicated to small business growth.

Growth Accelerators

In Mr. Saade's testimony there is a strong similarity between accelerators and business incubators. SBDCs have been working with, supporting and hosting incubators all across the country. With SBDC support, an incubator-based client receives not only peer mentoring but also direct engagement by highly trained and dedicated advisors. As higher education has been more broadly recognized as a critical component in today's technical and informational economy, our host institutions have been launching incubators as well as engaging faculty, staff and students in entrepreneurial activities. SBDCs are consistently at the forefront of this effort in almost every corner of our nation.

The other item we would emphasize in relation to growth acceleration is the frequent relationship we find between growth and exporting. Under the Jobs Act, Congress provided funding to dramatically expand the SBDC capacity to assist small businesses that were new to exporting or new to markets. For us, this was not an unfunded mandate but a real opportunity to add significantly to our arsenal of expertise we deploy to assist small business. We secured certification for far more staff than 'required' in the legislation and have worked hard to retain each and every qualified staff member when that funding expired.

Exporting opens new markets to our small business clients that directly translate into employment to support those new sales. Exporting also plays well within higher education with the foreign and new American student populations possessing language skills that often assist small businesses in negotiations and part-time or full-time employment upon graduation.

Finally, our SBDC members have discovered the substantial interest nations around the world have to develop their own domestic SBDC network. I'd be hard pressed to identify a single nation that we have had contact with that is not attempting to develop their own network of service centers to promote entrepreneurship and small business assistance patterned directly after our program. Whether it's Central or South America, the Caribbean, Common Market or even China, SBDCs are a concept America is exporting around the world.

Veterans

Support for veterans has been a part of the SBDC mission since the program was founded and over the years SBDCs have assisted literally hundreds of thousands of veterans either with their existing businesses or in starting new businesses.

To accomplish that mission SBDCs have developed programs nationwide based on initial training and followed up with intensive one- on-one counseling for the veteran business owners.

Overall, SBDCs counseled and trained 38,531 veterans in 2011 and 37,660 in 2012. Of those veterans in 2011 - 9,266 were service disabled and in 2012 – 9,182 service disabled veterans were assisted.

These veterans represent approximately 13% of the SBDC assistance provided annually. For example, last year, the Florida SBDC Network served 1,800 veterans through consulting and training.

Each state has developed its own programs and New York is a great example.

In New York, the SBDC has a comprehensive veterans' small business assistance program, providing targeted business training, counseling, and mentoring for veterans and service-disabled veterans. There are Veterans' Business Outreach Centers at the Farmingdale, Buffalo, and Albany SBDCs, each with a dedicated Veterans' Business Advisor. In addition, all of the 24 Regional Centers in the state-wide network prioritize assistance to veterans.

In Brooklyn they work with the New York City Mayor's Office of Veteran Affairs and the Mid-Hudson SBDC works with the Wounded Warrior Unit at the US Military Academy at West Point on joint programs for returning wounded veterans. The Mohawk Valley, Onondaga and Jamestown SBDC have all established an annual Veterans events supported by numerous regional organizations that provide breakout workshops, dozens of exhibitors, networking sessions, and matchmaking for Government Contracting.

In addition, NY has the EntreSkills[TM] for Veterans, an online training program available anywhere (including currently deployed troops) that combines online education with an SBDC advisor that electronically counsels each assigned veteran. This web-based interactive educational program teaches veterans how to be successful entrepreneurs and small business owners. The program takes veterans through cumulative stages as it helps them refine and develop a small business concept, address legal and marketing issues, prepare financial statements, and, ultimately, prepare a complete business plan. This program is currently being further enriched and is hoped to be offered in the newest format this fall.

The results for New York over the last five years – 648 veteran owned business starts from 5,894 clients, and 41,074 hours of counseling, 873 jobs created, 455 jobs saved and over $61 million dollars in financing. Those veterans received an average of over 7 hours of advisement in addition to training.

On top of these programs and one-on-one counseling, SBDCs are working with SBA's Office of Veterans' Business Ownership on the new Boots-2-Business program. That program has been successful and SBDCs see it as a good introduction point for one-on-one counseling and continuing assistance. SBDCs support the program and Mr. Jeppson can tell the committee how well-attended his TAP (Transition Assistance Program) training sessions were at the SBDC Annual Conference. SBDCs wholeheartedly agree that our returning veterans deserve the very best we can offer and will do everything in their power to deliver the assistance they need to succeed and fulfill the American dream.

Our hope is that we can continue our dialogue on how to most efficiently deliver Boots-2-Business and all the other needed services to veterans. We support the program and its goals; our only concern is resources and adequate coordination to use those resources effectively. We understand that Congress has limited resources and we will always seek to maximize the benefit of whatever resources Congress authorizes us to deploy in support of that constituency.

We have attached a few examples of the veteran-owned businesses SBDCs have worked with and counseled from all over the country.

In summary, America's SBDC would like to thank the committee for its inquiry. America's SBDC believe that SBA and its resource partners have an excellent arsenal of talent to bring to bear on business education. We also believe the biggest obstacle we have is failing to listen to one another and recognize our respective strengths and weaknesses.

Thank you.

A sampling of Veteran Business Clients of the SBDC networks.

John Rainey, ERRA Surgical Supplies [Rockland NY SBDC]
John Rainey opened ERRA Surgical Supplies in November 2010, in an area of Manhattan known as Spanish Harlem. He currently employs several Hispanic women and a few independent sales representatives. John's proximity to Columbia Presbyterian Hospital makes him the closest surgical supply outfit to the hospital with this type of specialty. The custom-made diabetic shoes and orthotics that ERRA supplies to its customers have positioned his business into a model for success. His efforts have led to gainful employment in an area of Manhattan that is currently suffering from high unemployment. ERRA Surgical Supply has been welcomed into the neighborhood with open arms. As a lieutenant in the Army, John served his country with honor and dignity - attributes that permeate his being and have allowed him to serve the disabled with one goal in mind, first to help the less fortunate and second to help his family. John understands of investment, his ability to see the industry for what it is and a deep desire to help others, who are less fortunate, along with the guidance the SBDC, helped him achieve success and accomplish his goals.

Jonathan Quinn, Captain Quinn's Fitness Boot Camp [Brooklyn SBDC]
From his initial weeks of basic training to the Reserve Officer Training Program at Syracuse University and throughout his career as an Air Force officer, Jon Quinn experienced firsthand the benefits of group exercise - military style. Jon started Captain Quinn's Fitness Boot Camp because he is passionate about fitness and about serving others through fitness education. His dedication to fitness has spanned over twenty years of service in the military, the private sector, and in non-profit organizations. Jon, a Certified Personal Trainer is on a mission to ignite a lifetime passion for fitness and healthy living in as many people as possible through programs designed to motivate, educate and inspire transformation and self-improvement. His Fitness Boot Camp provides results-oriented fast paced group fitness classes, private and small group fitness training and coaching, nutritional guidance and, eventually, on-line/retail video instruction. Jon consulted Business Advisor Janet Page at the Brooklyn SBDC for assistance with business plan development, sources of financing, cash flow projections, and discussions about start-up and growth. Jon ultimately obtained a $45,000 Patriot Express Loan from Bethex Federal Credit Union. Jon believes deeply in the power of fitness to transform lives, and tells all his clients that "Fitness is essential and should always be FUN!"

Peter DelCotto, The Woodshed [Buffalo SBDC]
When he was in the Air Force and traveling through Asia, Europe, and the Middle East, Peter Delcotto developed a wealth of knowledge about food and exotic cultures. He came to believe that food tells a certain story about the people and their environment. He decided to become a chef to share his experiences in other cuisines by highlighting the most popular dishes of each respective culture. After earning a degree in

Hospitality Management, Peter consulted the Buffalo SBDC for assistance in refining his business plan and financing. Peter credits having a strong business plan and taking the time to truly learn this new industry as critical factors in enabling him to successfully leverage his management background into his restaurant. In May 2012, he got funding and founded The Woodshed, a family owned and operating restaurant that serves up traditional Southern style smokehouse barbecue. The restaurant is Peter's lifelong dream – a place with a relaxed casual atmosphere and great food on the table.

Lieutenant Colonel Gabriel (Gabe) Ruiz retired from the U.S. Army in 2006. Since then he has leveraged a military career in information technology and an entrepreneurial spirit as owner and CEO of Advanced IT Concepts, Inc. which provides IT consulting services and value added resale of computer hardware and peripherals to both the government and private sectors. AITC, Inc. is a Service Disabled Veteran-Owned Small Business and has recently earned its 8(a) certification.

Since incorporation the company has achieved outstanding results with sales exceeding $1.5 million in the first fiscal year. Year two was a breakout year which saw sales nearly double with a net profit margin exceeding 12.5%. Sales in this current year will again double exceeding the $5 million milestone. In the three year period [2010-2013], the company has added 11 full-time employees reaffirming the fact that "small business" is this country's economic engine.

The company's rapid growth has been accompanied with business challenges and Gabe turned to the Florida SBDC at the University of Central Florida. In Gabe's words, "The SBDC at UCF has been a true and invaluable partner to AITC. From our first meeting with growth acceleration services consultant Roger Greenwald who showed a true caring attitude and superb business knowledge we have received expert advice in areas such as marketing, business development, budgeting and forecasting, operational effectiveness and more.

Daron Horne, Sr., owner of Daron's Construction Solutions LLC in Pensacola, FL is growing his business by pursuing contracting opportunities. To date, Daron has been awarded several Emerald Coast Utilities Authority contracts and four contracts with Gulf Power. Laura Subel, SBDC procurement specialist and business consultant, advised Daron on how to work with the federal, state and local governments, and is preparing Horne for becoming a certified minority-owned and veteran-owned business, as well as an 8(a) certified business. Certified business consultant Thawanna Keaton assisted Horne with his LLC operating agreement, membership certificates and updating the company's information with the Division of Corporations.

John Butler, American Produce Express (WA SBDC)

Third generation orchardist John Butler refers to himself as "just a farmer." But the growth in the past decade of his $1 million per year fruit processing company qualifies him as a successful businessman, as well. American Produce Express has doubled revenue in the last

three years, and he contributes at least part of that success to his SBDC business advisor, Lew Blakeney. Butler first approached the SBDC in the late 1990s, when the profit margins on his apples he was trucking the fruit to Montana and Arizona to find additional markets.

"The banks would not loan us the money needed to finance the trips," he said. "With the help of our SBDC, we were able to secure an SBA-guaranteed bank loan to cover our transportation costs and turn a profit on the trips."

Then, in 2002, Butler began to see the processed fruit market as a potential niche. As he started experimenting with slicing apples and building his business, he again turned to the SBDC. "Lew advised us as we developed our product line and manufacturing methods," Butler said, recalling that they created and modified equipment piece by piece in a machine shop.

With other, larger companies competing for the sliced apple market, American Produce Express focused its efforts on producing a consistently high- quality product and delivering directly to the customer —school districts in particular. A map on his office wall identifies the 60-plus districts throughout the state that carry his products. "We are looking at installing additional equipment and possibly adding a second shift to our processing line," he said. The plant can produce more than 100,000 pounds of fruit per month. During the school year, 15 employees are on staff; a limited summer operation supplies camps and others. In addition to apples, the operation distributes oranges, pears, grapes and nectarines.

Supporting the community and staying environmentally friendly are priori- ties for American Produce Express. "We are working with Career Path Services locally to place special needs individuals in our operation," Butler said. The company directs excess inventory to the area food bank, with byproducts and waste going to nearby feedlots.

Janice P. Guy, Founder, President and CEO, P3I Inc.

Ms. Guy founded P3I, Incorporated in February of 2000. She brings over 35 years of progressive experience in the U.S. Marine Corps as well as Business and Program Management. Major Guy was one of the first women Air Defense Control Officers in the Marine Corps and controlled over 2,000 multi-plane, ground-controlled radar intercepts during her military career.

After her years of service in the Marine Corps, Ms. Guy established a Massachusetts office for the Eldyne Corporation, providing systems engineering services to commercial and government clients.

Since founding P3I, Inc. Ms. Guy has received numerous awards, including:

SBA 2004 Minority Small Business Person of the Year for Massachusetts; 2009 SBA Regional Minority Small Business Person of the Year Award for Region 1; 2011 Top Minority/Woman-Owned Business as featured in the Boston Business Journal; 2009-2012 Recognized by Inc. 5000 as "One of American's Fastest-Growing Private Companies!"; 2004-2012 Top 500 Women-Owned Businesses in the U.S.; 2004-2012 Top 100 Native American Owned Businesses in the U.S.; 2004-2012 Top 50 Small Businesses in Massachusetts; 2007 Hot 500 Fastest Growing Small Business, Entrepreneur Magazine; 2004-2012 Top Business, DiversityBusiness.com.

Ms. Guy is an Honored Professional in "Who's Who in Executive Business" and is included in the Who's Who Among Executives and Professional Women.

SBDC Intensive Counseling Programs

The programs below are derived from a brief survey of the SBDC network. Whether called 'economic gardening', 'intensive entrepreneurship' or some other name, they share the trait of being based on significant in-depth education and counseling.

ARIZONA –

The Arizona SBDC network offers 2d stage training based on the Lowe Foundation "economic gardening" model.

COLORADO –

The Colorado SBDC is now offering advanced training for 2d stage companies based on the Lowe Foundation economic gardening model.

DELAWARE –

The Delaware SBDC has an intensive executive training program called the "Business Development Network". This is a six session program for business owners with revenue more than $500k to work with peers of non-competing firms and certified executive coaches to master proven strategies that will increase profits and create a business that works without the owner.

HOUSTON – Houston SBDC has initiated a 40 hour long term training program in March for companies in business for 2+ years and $300K+ in revenues that want to "Grow Smart."

IDAHO - The North Idaho office developed a curriculum called Entrepreneurial Leadership Training that is for mid-size growth companies. Many times there are multiple people from the same company in the class. In addition, we identify and focus on what we call growth companies for individualized assistance. We also partnered with our College of Business and Economics to develop a certificate course (similar to CGBC) for owners and employees of companies who are or want to export.

ILLINOIS –

The Illinois SBDC has developed a 2d stage growth platform based a variety of programs and services.

INDIANA –

The Indiana SBDC network offers a Lowe Foundation based economic gardening programs and services for second stage companies.

KANSAS –

The Kansas SBDC network offers a Lowe Foundation based economic gardening programs and services for second stage companies.

KENTUCKY –
KY SBDC targets 2nd stage companies with the following training and services:
Economic Gardening; Profit Master – training and counseling in financial analysis and management to improve profitability; *Financial benchmarking* – provide industry data that aids in benchmarking and goal setting; *Strategic market analysis* – provide access to data and interpretation of the data for strategic positioning; *Search Engine Optimization;* and *Export readiness assessment.*
They present a statewide recognition program at the state capitol for 2nd stage companies. Each year 8 to 12 companies are recognized and receive additional marketing support.

LOUISIANA –
Working with the Louisiana Office of Economic Development, the LA SBDC is developing a 2d stage company curriculum to improve financial analysis, market development and growth strategies.

LOS ANGELES –
Los Angeles SBDC Network is a key program partner of the Goldman Sachs 10,000 Small Businesses program that keys in on businesses that are between $150k-$4m in revenue and have at least 4 employees. We encourage our clients to apply and participate in the program and also have every participant receive SBDC services and work with them on their growth plan upon graduation. An outline of the 10ksb curriculum: http://socal10ksb.com/wordpress/wp-content/uploads/2013/12/Curriculum-12.04.13.pdf
• LASBDC is also deeply engaged with the Kauffman Foundation on the *Innovation Fund SoCal* program, which provides critical funding and wraparound services to entrepreneurs in advanced manufacturing, cleantech and biomed. Lead Center is working with Babson College lead faculty to devise a set of training curriculum that we can use to educate entrepreneurs in those sectors on how to advance their business. The training program will be field tested in conjunction with *IF SoCal*, and will be rolled out to key centers in markets with strong concentrations of high tech entrepreneurs – Santa Monica College SBDC and Bixel Exchange SBDC to name a few. The key modules of the training program, titled "Tech Start-Up Accelerator Program" (for now) include:
o Identifying Opportunities – Dealing with risk and uncertainty, a framework for strategic thinking, industry analysis framework, leveraging disruptive innovations
o Financials – case studies, opportunity assessments, financial statements
o Team – the people side of building the businesses, vision and mission, leadership styles
• Bixel Exchange SBDC based at the LA Chamber of Commerce is focused on emerging tech. Their approach in working with those companies includes:
o Leadership development
o Global trade – business development training
o Cost containment planning

MARYLAND-
Maryland SBTDC has developed a *Business Accelerator- Executive Coaching Series* for second stage firms. Below are the brief descriptions of our original programs.

CEO Accelerator - *Think-tank for Million Dollar Businesses*
For 12 consecutive weeks, business owners with revenue more than $500k work with peers of non-competing firms and certified executive coaches to master proven strategies that will increase profits and create a business that works without the owner. The "CEO Accelerator" completed it fifth cohort in December 2013 at the Maryland Center for Entrepreneurship in Columbia, MD. Over 50 businesses have benefited from the program. The current cohort has 15 participants.

Growth Accelerator - *Proven Tools to Build Profits*
Business owners with revenue less than $500k develop a "roadmap" to build a million dollar business, learning over 6 consecutive weeks how to generate prospects, increase profits, eliminate chaos, and motivate employees. The "Growth Accelerator," completed its third cohort in December 2013 serving over 30 owners. The current cohort has 17 business owners.

MICHIGAN –
MI SBDC has developed and trained a cadre of counselors specializing in 2d stage companies and helping them grow and expand. This advanced counseling is based on the Lowe Foundation economic gardening model.

MINNESOTA –
The Minnesota SBDC network has adopted an intensive financial education training program for our small business clients, called "Profit Mastery", offered by Business Resource Services. (http://www.brs-seattle.com/) This is the first step in building a comprehensive curriculum (still in development) to target 2nd Stage Companies poised for growth.
This program takes 'accounting' speak and translates it into everyday small business language. We found that most Entrepreneurs understand their checkbook and thus the Profit and Loss statement, but are daunted by the balance sheet, how they tie together and the absolute impact of cash flow. This program solves that dilemma by giving them tools – usually for the first time – to run their business from a financial perspective and make choices that enhance the bottom line. This training is critical for companies to get their financial house in order and have a solid base to build on.
While the training is offered to all small business clients per SBDC guidelines, it is targeted to the 2nd stage company that is poised to grow.

MISSOURI –
CEO Coaching and More – targeted to companies in business more than 2 years, have 3 full time employees and at least $400,000 in sales.
Baldrige Executive Roundtables – targeted to companies in business more than 2 years, have 3 full time employees and at least $400,000 in sales.
FastTrac Growth Venture – though not specifically targeting a certain size business, it generally targets any company bigger than $250K and 3 employees
Economic Gardening engagements – In general, this program is targeting companies looking to grow and have the capability to grow. That target best fits the minimum of $400K and 6 employees.

MONTANA
In the Montana SBDC the Great Falls regional SBDC has taken the lead in the state in targeting hi-value companies. The SBDC Director spends 70% of her time on these existing businesses. 30% of that time is spent with rapid-growth companies that have been vetted to participate in the training, called *The Growth Initiative.* Targeted companies are those that are poised for a 10-25% growth, have 10 employees, and over $5 million plus in sales. *The Growth Initiative* uses the following curricula:
The GrowthWheel from Startup Company, Thought Patterns for High Performance from The Pacific Institute, PeerSpectives Roundtables from Edward Lowe Foundation, Executive Book Club, and
CEO Forums – which features CEO's of Stage 4 and Stage 5 growth companies sharing innovative strategies with Stage 1 & 2 companies.
The Great Falls SBDC service center is also in the process of adopting North Carolina SBDC's Strategic Organizational Assessment which is geared to second stage companies.
Several regions have done or are doing the Peerspectives mentoring roundtables geared to 2nd stage companies.

NEW HAMPSHIRE-
The NH SBDC is developing a program called Building Profitable Businesses. While the program will offer comprehensive management advice it will focus on the strength of each company's practices in

- Customer service,
- Cash reserves and cash flow management, and
- Product and Market Diversification.

The program will have three components:

1. Business Assessment - To provide businesses with an in-depth assessment of their company's strengths and weaknesses to determine particular vulnerabilities.

2. Dashboard Initiative to help owners to understand key indicators of growth and success and to develop a benchmark measurement system. The counselors then meet with the business owners on at least a monthly basis to review the company's management practices and its health in relation to the indicators.

3. Online Education – The NH SBDC is developing online e-courses on customer service, financial management and product/market diversification. Course objectives will be to help small business realize greater profitability and become more resilient. The NH SBDC is nationally recognized for its e-courses which have been taken by more than 7000 businesses in 230 NH communities and six continents over the past 5 years.

NORTH CAROLINA –

Since 1999, the NC SBTDC has provided services, tools and resources for small to mid-sized businesses to help them improve performance, enhance their competitiveness and support growth. These services are targeted to firms with 10 or more employees and revenues of $1 million or more.

We support this effort with a Strategy and Organizational Development unit which has responsibility for enhancing our ability to help firms to achieve higher performance and growth. Our services are focused in three areas: knowledge development, strategy development and talent development. Briefly, below is a description of our tools in each of these areas:

KNOWLEDGE DEVELOPMENT-

1. Strategic Organizational Assessment
2. Strategic Market Assessment
3. Baldridge Assessment
4. Sales Performance Survey
5. Financial Assessment
6. Customized Assessments and surveys

STRATEGY DEVELOPMENT

1. Strategic Planning
2. Action Planning
3. Industry and Market Conditions
4. Marketing Planning
5. Benchmarking and Metrics

TALENT DEVELOPMENT

1. Assessment---TAIS, DISC, Leadership Practices Inventory
2. Leadership Development—The Leadership Challenge
3. Executive Development---SymmeTree
4. Manager Development--NxLevel

OHIO-

OH SBDC offers the PeerSpectives executive roundtable series for 2d stage company growth. These peer to peer counseling and mentoring programs, combined with regular SBDC counseling assist 2d stage growth and provide enhanced counseling.

OREGON-
The Oregon SBDC Network has developed and delivered "Grow Oregon," which provides in-depth assessment, intensive coaching/advising (assignment of 2 highly-skilled SBDC professionals [e.g., finance and marketing experts] per owner/CEO), advanced market research, and digital media assistance. Via supplemental funding from the Oregon Legislature, Grow Oregon targets companies that meet the following criteria:

- 10-99 employees
- $1 million - $50 million in annual revenues
- Demonstrated growth in gross sales, net profit, or net employment in three of the five years prior to enrollment
- Does business as a "traded sector" firm, e.g., does not compete primarily in a local or regional market, or transact business primarily with household consumers.

Additionally, Oregon SBDC's *Small Business Management* (SBM) program targets established businesses with 1-5 employees and $250K+ in annual sales. SBM combines peer-to-peer cohort-based classroom instruction with no-cost confidential advising, over a one to three year period. The cohorts convene 3 hours per month, ten months per year—participant clients also engage in 2 hours of counseling per month. SBM is our Network's flagship program, and has been an integral component of our service delivery for over 30 years. Key curriculum topics include Planning For Success, Understanding Financial Statements and Accounting Systems, Cash Flow and Ratio Analysis, Marketing For Success, and much more.

SW TEXAS - The Building Business Excellence (BBE) program has been in existence at the UTSA field Center since 2002, and due to our strategic initiatives to reach and serve the Stage 2 market; it is currently being modeled throughout our network. The intensive entrepreneurship training associated with the BBE program complements our professional business advising and is a great tool to convert attendees to develop higher impact, longer-term advising client relationships. After careful analysis of our service area, we recently determined that this direction is critical for obvious reasons: They create 34% of all jobs, pay higher wages, and make a sustained and greater contribution to our economy.

The Building Business Excellence (BBE) program focuses on leadership, human resources, ethics and modeling behavior and finance. The following topics will be addressed over a 7-week period. The instructor will guide the conversation organically based on participant's input. Featured topics are:

- The Values Based Leadership Journey
- Leadership Development Model
- Organizational culture and its impact on business
- Introduction to the DiSC Model and how to identify DISC styles
- Situational Leadership and the four supervisory styles and employees development levels
- Values Based Leadership Influencing Guide
- Explore situational and behavioral science of influence

- Learn how to ask influential questions
- Hiring: What we lose when we don't "hire to the right"
- Talent Management
- Succession planning and organizational development
- Conflict Resolution: The five approaches to conflict
- Introduction to the drama triangle
- The Conflict Resolution Highway
- Ensuring your organization is aligned with your Vision, Mission and Values
- The five ethical decision making styles

UTAH –

The Utah SBDC network has a goal to bring our percentage of 2nd Stage companies to 20% of our total clients in 2014. This represents more than a doubling of these types of clients. To reach that goal the following programs and training are targeted to these companies.

Services:

- Customized market research reports
- Integration into an "economic gardening" program at Utah SBDC
- Growth plan implementation for Utah graduates of Goldman Sachs 10,000 Small Business Program (Utah SBDC is a named partner for the program)
- Loan packaging assistance

- Training
  - State-wide export training (this year is focused on identifying target export markets and finding agents/distributors)
  - Franklin Covey's 4 Disciplines of Execution (exclusive license from Franklin Covey to teach to businesses with less than 200 employees)
  - Franklin Covey's 7 Habits for Small Business Managers (offered generally, and to specific businesses that want their manager's trained)
  - FastTrac Growth Venture
  - Meet the Money People seminars

VERMONT –

Vermont SBDC has several tools and training programs geared to stage 2 businesses:

1. Strategic Planning 1/2 day workshop - Kauffman Foundation curriculum, titled "Listening to Your Business". We've used this with businesses within a particular industry sector (with tourism businesses so important to our economy--we used this as a focused program for hospitality businesses to plan their 'preferred' future).
2. *OnTrac Strategic Assessment*--modeled after internationally recognized quality/success standards (Baldridge)--we work with CEO's and key management on a comprehensive assessment of the key areas of their business. (Developed by VtSBDC, however--credit to Missouri SBDC for their assessment which was our starting place)
3. *CoreValue® Software* ---we use with business owners who want to "quantify the intangible assets hidden within a business – assets that can increase a company's value by millions – and

which a business owner can then use when transferring ownership, raising capital, or building for the future."
We have a relationship with the Vermont company that created it--and a partnership with our MEP (the Vermont Manufacturing Extension Center)--whereby they will use this software with manufacturers, and refer non-manufacturers to VtSBDC.

VIRGINIA –

Virginia SBDC has developed two programs to work with 2d stage companies.

Managing Growth in Business Executive Leadership Roundtable to build networks, solve issues, and learn from other small business owners. The "Managing Business Growth" roundtable meets monthly for peer-to-peer coaching, best practices discussions, and speaker presentations. There is a 15-person limit, one person per company, for each roundtable event.

This group is for business owners who:
Anticipate more than $250,000 but less than $50 million revenue
Have more than 3, but fewer than 100 employees
Are looking for new ideas, lessons learned, and innovative approaches to grow their business

Topics include:

- Stepping Back: Stop Working IN Your Business and Start Working ON It
- Growth and the Changing Organization: From Entrepreneurially Driven to Professionally Managed
- Transition from a Business Plan to a Strategic Plan
- Critical Thinking for Business Owners
- Valuation and Selling (or Successful Exit Strategies)
- Marketing Plan – is it current? Is it working?
- Sales for the Non-Salesperson

Growth Planning Series

The Central Virginia Small Business Development Center is offering a new Growth Planning Series in 2014.
Target market: Second stage and higher growth businesses with annual sales between $250,000 and $2.5 million.
Marketing: To customer and prospect base in the Center region. Internal database contains over 1500 active clients and attendees at Center events.
Services: Confidential one-on-one business counseling to assist in the development of a SWOT analysis, a marketing plan, and financial review of the business. Each participant will receive 10 hours of counseling during 2014. If appropriate, a client in the program may choose to attend a one-hour class on preparation of cash flow projections or marketing planning conducted by the SBDC.

WASHINGTON –
WA SBDC has developed several significant courses that target 2nd stage companies or as they refer to them, Growth & Development (G&D) Companies. In particular, WA SBDC focuses on export readiness and export markets. As with every SBDC they have a very wide offering of courses for our SMEs but these courses were specifically developed to train, help accelerate clients toward positive outcomes and as a recruiting tool for new G&D companies.

WYOMING –
Wyoming offers a Lowe Foundation based Economic Gardening program to second stage companies that are usually defined by 10 employees and $1,000,000 in revenue though that level it is not a requirement. This support and training is combined with succession planning programs; financial health check-ups; and of course their government contracting assistance (PTAC) which typically deals with existing businesses though they do not have any minimum requirements to participate.

SBIA
SMALL BUSINESS
INVESTOR ALLIANCE

April 30, 2014

Chairman Sam Graves
House Committee on Small Business
2361 Rayburn House Office Building
Washington, D.C. 20515

Ranking Member Nydia Velázquez
House Committee on Small Business
B-343C Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Graves and Ranking Member Velázquez,

On behalf of the Small Business Investor Alliance (SBIA), thank you for holding this hearing on "SBA-created Initiatives: Necessary or Redundant Spending." Access to capital is a vital issue to most small businesses, particularly in a recovering economy where many providers of capital are highly regulated and are still adjusting to new regulatory mandates. The Small Business Investment Company (SBIC) program is a critical initiative that has empowered investors to be a vital source of capital, facilitating growth and job creation. This country needs more investment in domestic small businesses, not less.

The SBIC Program

The SBIC program, administered by the Small Business Administration (SBA)'s Office of Investment and Innovation, was created in 1958 to increase the amount of capital flowing to domestic small businesses. SBIC funds invest exclusively in domestic small businesses using debt or equity. These small businesses often require investments that are generally not available through banks or other sources of capital. 100% of investments by SBICs are in domestic small businesses with 25% of those investments in very small enterprises. SBICs raise private capital and then are permitted to access SBA leverage to increase the pool of capital available for small businesses investment. The leverage is fully paid back plus fees and interest. The program operates at zero cost to the taxpayer with no subsidy rate – no appropriations are required for the leverage.

Over 1,000 small businesses received financing in fiscal 2013; many of these are located in low-to-moderate income (LMI) areas. All of this investment and the resulting job creation continue to be achieved at zero cost to the taxpayer. SBICs are providing critical capital that is otherwise not available. SBA, with the support of the industry, is actively seeking diverse, high quality fund managers who will continue to expand access to capital to areas of the country that need it.

The Small Business Investment Company Modernization Act of 2013 (H.R. 1106)

We would like to thank Congressman Steve Chabot for introducing the Small Business Investment Company Modernization Act of 2013 (H.R. 1106), as well as the many bipartisan cosponsors from the Small Business Committee. We encourage the Committee to act expeditiously in marking up this legislation, as it is critical to build on the success of the SBIC program. An identical bill passed the House of Representatives in the previous Congress with overwhelmingly bipartisan support.

1100 H Street, NW Suite 610 Washington, DC 20005 (202) 628-5055 sbia.org

H.R. 1106 adjusts the maximum amount of leverage available to multiple SBICs to a limit of $350 million from its current cap at $225 million. H.R. 1106 does not increase federal spending or require new appropriations. The only SBICs that can access the higher limits are funds that have successfully operated an SBIC and have gone through the rigorous SBA licensing process at least twice. Increasing this limit will retain proven small business investors in the program and further increase the amount of capital flowing to small businesses. This increase has bipartisan, bicameral Congressional support as well as support from the Administration.

Members of this Committee have consistently championed access to capital and other common sense regulatory reforms outside of this Committee. These efforts highlight a commitment to help small businesses wherever the opportunity may arise. For example, Representative Luetkemeyer has worked to enhance small business investment by addressing unnecessary SEC regulatory burdens on SBIC funds. We also thank Representatives Velázquez and Mulvaney for their leadership in reviewing and modernizing the regulations governing Business Development Companies. We will continue to work with the members of this Committee who champion small business investing every day.

We appreciate the opportunity to share the success stories of the SBIC program with the Committee and look forward to work together to the ensure continued success of small businesses via SBIC investment.

Sincerely,

Brett Palmer

Brett Palmer
President
Small Business Investor Alliance

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